

**LEGAL SERVICES CORPORATION  
OFFICE OF INSPECTOR GENERAL**

**REVIEW OF GRANTEE'S  
TRANSFER OF FUNDS  
AND COMPLIANCE WITH  
PROGRAM INTEGRITY STANDARDS**

**Grantee: Central Virginia Legal Aid Society,  
Inc.**

**Recipient No. 447030**

**Report No. AU 02-03**

**March 2002**

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## **RESULTS OF AUDIT**

The Legal Services Corporation (LSC) Office of Inspector General (OIG) conducted this audit to determine whether Central Virginia Legal Aid Society (grantee) complied with certain requirements of 45 CFR Part 1610. This regulation prohibits grantees from transferring LSC funds to an organization that engages in activities prohibited by the LSC Act and LSC appropriation acts, with one exception. The only exception is that LSC funds may be used to fund private attorney involvement (PAI) activities that an organization performs for the grantee. In addition, grantees must maintain objective integrity and independence from organizations that engage in restricted activities.

This audit provides reasonable, but not absolute, assurance that, except for a relatively minor subsidization, the grantee complied with Part 1610 between January 1, 2000 and September 30, 2001. During part of this period the grantee had a relationship with the Legal Aid Justice Center (Justice Center) an organization that engages in restricted activities. The grantee maintained objective integrity and independence from the Justice Center. The two organizations were legally separate entities and maintained physical and financial separation. The grantee leased office space for its Charlottesville branch office from the Justice Center. The rent paid was reasonable and did not subsidize the Justice Center. To a limited extent, the grantee subsidized the Justice Center by providing free client intake services.

In addition, the grantee:

- did not have required certifications for part time employees; and
- used a small amount of LSC grant funds to pay prohibited dues.

The OIG reviewed 40 cases that had been filed with the courts. There were no indications that these cases involved restricted or prohibited activities.

### **Limited Subsidy**

The grantee used LSC funds to pay its staff that performed some intake services for the Justice Center at its Charlottesville and Petersburg, Virginia. offices. The grantee's intake staff determined client eligibility, documented client identify, determined the client's problem and referred some clients to the Justice Center. Client information was provided to the Justice Center. Grantee staff at the Charlottesville branch office had access to Justice Center attorneys' calendars and scheduled appointments for some clients.

The OIG recognizes that the intake process is an efficient and convenient way to serve clients, especially those that the grantee cannot assist. However, LSC provided

funds were used to pay the intake staff and the Justice Center was subsidized, to a limited extent. Because of the difficulty in separating grantee work from that done for the Justice Center, we were not able to estimate the amount of the subsidy. The grantee's management agreed to correct the problem by paying the intake staff with non-LSC funds.

### **Certification of Part Time Attorneys**

One part-time attorney, who worked for an organization that engaged in prohibited activities, did not provide required certifications that he did not engage in prohibited activities while paid by the grantee. Four other part time advocates did not document whether they were employed by another legal organization. As a result the grantee did not comply with 45 CFR Part 1635 requirements.

Under 45 CFR Part 1635, grantees are required to obtain certifications from part-time advocates who also work for organizations that engage in restricted activities. The advocates are required to certify they did not work on prohibited activities while being paid with LSC funds. These certifications are required quarterly and must be maintained by the grantee.

A part-time attorney in the Charlottesville office worked for another legal organization that engaged in restricted activities. Certifications covering the quarters ended March 31 and June 30, 2001 were not obtained for this employee. The OIG was provided documentation in which the part time attorney stated that he maintained a clear separation between his two jobs and that he fully complied with all LSC regulations during the period January 1 through June 30, 2001. This documentation was completed subsequent to the certification period and did not meet the certification requirement. The attorney completed a certification for the quarter ended September 30, 2001. The grantee's Executive Director stated that in the future the employee would complete quarterly certifications as required by the regulation.

Four additional part-time advocates did not document whether they were employed by another legal organization and did not provide certifications. The grantee did not have a formal process for determining whether part-time advocates were employed by organizations that engaged in restricted activities. During the audit, the grantee's Executive Director implemented a policy requiring all part-time advocates to state in writing whether they also worked for another legal organization. The policy also states that, in the future, any staff member that obtains employment with a legal organization must provide written notice to the Executive Director.

The OIG did not identify any instances in which an attorney or paralegal engaged in a restricted activity while compensated by the grantee or used grantee resources for restricted activities.

We are not making recommendations for this finding because no violations of the practice restrictions were found and the Executive Director took action to preclude future violations of 45 CFR Part 1635.

### **Dues paid with LSC Funds**

LSC funds were used to pay membership fees totaling \$1,059 to a nonprofit legal organization in 2001. Under 45 CFR 1627, grantees are prohibited from using LSC funds to pay membership fees to any private or nonprofit organization. After discussion with the Executive Director, \$266 was charged to non-LSC funds. The remainder could not be changed because the accounting records had closed and an adjustment could not be made. Considering that the grantee's expenses for 2001 totaled over \$1.5 million, the amount spent on dues was immaterial.

### **RECOMMENDATIONS**

To correct the subsidization and dues problems, we recommend that the grantee's management adopt procedures to ensure that non-LSC funds:

1. finance intake services; and
2. finance membership fees paid to private and non-profit organizations.

### **SUMMARY OF GRANTEE'S COMMENTS ON DRAFT REPORT**

The grantee agreed with the audit's findings and indicated that the OIG recommendations will be implemented. The grantee's comments are included as Appendix II.

### **Planned Future Involvement with the Justice Center**

In October 2001 when we performed the on-site work, the grantee was finalizing a contract with the Justice Center. The contract provided to the OIG stipulated that the Justice Center would provide legal aid to low-income clients in the metropolitan Richmond area for the period November 1, 2001 through June 30, 2002. The legal aid services to be provided may include cases that the grantee is precluded from handling by statute and regulation. The Legal Services Corporation of Virginia is funding the contract. The grantee management stated that under the contract no LSC funds would be transferred to the Justice Center. In addition, the grantee's staff in Richmond will perform intake services and refer clients to the Justice Center's Richmond office. The grantee's management stated that non-LSC funds would finance all intake services pertaining to clients referred to the Justice Center.

The grantee also plans to sublease part of its space in its Richmond office to the Justice Center. The OIG was provided the terms and conditions of the sublease. The documentation indicated that the grantee will receive fair market rent for the space. The planned configuration of the subleased space will provide for the (1) physical separation of the grantee and the Justice Center; and (2) distinguish the two organizations from each other. At the time of our visit the Justice Center had not moved into the space it planned to sublease and the OIG could not evaluate interaction between the two organizations.

The OIG review of the proposed contract and lease documentation and interviews with grantee management did not identify any planned ventures involving the sublease that could result in the grantee subsidizing the Justice Center.

## **BACKGROUND**

The grantee is a nonprofit corporation established to provide legal services to indigent individuals who meet eligibility guidelines. About 77 percent of all cases closed by the grantee in 2000 related to family law, housing issues, or consumer matters. The grantee is headquartered in Richmond, Virginia. Branch offices are located in Charlottesville and Petersburg, Virginia. At the time of our visit, the grantee had a staff of forty, including eighteen attorneys. The grantee received total funding of about \$1.41 million during their most recent fiscal year, which ended December 31, 2000. LSC provided about \$528,000, or about 37 percent of the total funds received by the grantee during that year. LSC is providing about \$1.03 million to the grantee during 2001.

Prior to 2001 the grantee serviced clients in the metropolitan Richmond area. Effective January 1, 2001, the grantee began servicing clients in Charlottesville and Petersburg areas previously serviced by two different LSC recipients unrelated to each other or to the grantee. As a result, LSC funds pertaining to the Charlottesville and Petersburg areas for 2001 are being distributed to the grantee. The two former LSC recipients functioned as sub-grantees of the grantee between January 1 and June 30, 2001. The former LSC recipient in Charlottesville merged with the grantee effective July 1, 2001. Most of the staff of the former LSC recipient in Petersburg began working for the grantee effective July 1, 2001.

Grantees are prohibited from transferring LSC funds to another person or organization that engages in restricted activities except when the transfer is for funding PAI activities. In these instances the prohibitions apply only to the LSC funds that were transferred to the person or entity performing within the PAI program. Grantees must also maintain objective integrity and independence from organizations that engage in restricted activities.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

This audit assessed whether the grantee complied with requirements established in 45 CFR Part 1610 relating to the transfer of funds to other organizations and program integrity standards.

Our review covered the period January 1, 2000 through September 30, 2001. The OIG began this audit work in early October 2001 and visited the grantee's offices in Richmond, Charlottesville, and Petersburg, Virginia, during the period October 15-25, 2001. At LSC headquarters in Washington, DC, we reviewed materials pertaining to the grantee including its Certifications of Program Integrity, audited financial statements, grant proposals, and recipient profile. OIG staff discussed issues relating to the grantee with LSC management officials.

During the on-site visit, the OIG interviewed and collected information from the Executive Director, case handlers, and other staff. Another legal services provider, Legal Aid Justice Center, was located in the same building as the grantee's offices in Charlottesville and Petersburg. The OIG interviewed officials with the Justice Center, including the Executive Director. We ascertained whether the grantee's employees were generally knowledgeable regarding the guidelines set forth in Part 1610. The audit included an assessment of the grantee policies and procedures applicable to the transfer of funds to other organizations and program integrity requirements.

The OIG gained an understanding of the client intake process utilized by the grantee. We identified the grantee's controls regarding its oversight of its Private Attorney Involvement program.

The OIG identified and reviewed 40 cases that had been filed in court to determine if the grantee had engaged in a restricted or prohibited activity. Most cases were discussed with the Executive Director or an attorney employed by the grantee.

The OIG reviewed the grantee's financial accounts for vendors including contractors, employees, and consultants. From the 686 vendors identified in the grantee's 3 Master Vendor Lists, we judgmentally selected 166 vendors and examined 100 percent of the activity. We reviewed 680 transactions totaling over \$807,000.

The OIG assessed the process used by the grantee to allocate direct and indirect costs to LSC and non-LSC funds. Policies and procedures relating to payroll and timekeeping were evaluated. The grantee's employees were interviewed to determine their understanding as to which fund they should charge their time relative to case handling.

All agreements between the grantee, and other organizations and individuals, were requested. The OIG reviewed all materials provided including grant funding instruments, leases, and contracts.

We performed this audit in accordance with *Government Auditing Standards* (1994 revision) established by the Comptroller General of the United States and under authority of the Inspector General Act of 1978, as amended and Public Law 106-553, incorporating by reference Public Law 104-134.



## APPENDIX II

### **OIG STAFF RESPONSIBLE FOR THE AUDIT AND THE REPORT**

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